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SUBJECT: SPECULATION THAT EADS MAY GET OUT OF THE SATELLITE  
BUSINESS

REF: BERLIN 43

Classified By: Global Affairs Unit Chief Don L. Brown for  
reasons 1.4 (b) and (d).

11. (C) SUMMARY: According to a mid-level EADS-Astrium manager, Tom Walati, the European Aerospace Defense and Space Company (EADS) may elect to sell off its EADS-Astrium Satellites subsidiary if its fortunes do not change in bidding for lucrative European satellite contracts. This drastic measure could allow EADS to focus on its ailing Airbus subsidiary -- plagued by budget overruns, schedule slips, and falling orders associated with its A380 Superjumbo and A400M military transport aircraft programs. Specifically, EADS' decision regarding Astrium Satellites may hinge on its ability to salvage a contract for the remaining eight Galileo position, navigation, and control (PNT) satellites and its ability to win the European Space Agency's (ESA) Meteosat Third Generation (MTG) meteorological satellite contract. Walati speculated that the French in EADS may favor dissolving Astrium Satellites in order to fence off portions of the business within French industry.  
END SUMMARY

#### ASTRIUM HOPES DIMMING FOR GALILEO CONTRACT

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12. (C) Walati said, barring a miracle, that Astrium insiders do not expect to be awarded the contract to build the remaining eight Galileo satellites and assume that Germany's OHB-System will likely win out. Based on the fact that OHB already bested Astrium for the first 14 satellites (based primarily on price), Walati reasoned that per-unit cost considerations can only push OHB's price lower, while Astrium's price can only go up, giving OHB the decisive edge. He said this does not imply that Astrium is conceding defeat for the moment, but will work on revising its bid in hopes of pulling a surprise victory.

13. (C) Having read the Astrium Galileo bid, Walati said it looked pretty solid and that, although more expensive, the Astrium satellites had more capability. He also said that industry insiders were questioning whether OHB had the resources on hand to build all the Galileo satellites and

meet the 2014 schedule deadline, suggesting that some of this work would need to be subcontracted out -- possibly to Astrium.

#### PROSPECTS FOR THE MTG CONTRACT ALSO ON SHAKY GROUND

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¶4. (C) Walati said a majority share of the European Space Agency's (ESA) 1.5 billion euro Meteosat Third Generation (MTG) six-satellite constellation contract is "critical" for Astrium's future. In November 2008, preliminary bidding on the MTG contract resulted in France and Germany agreeing to share program leadership at shares of 34 percent each, based on the level of the respective government funding contributions. The primary bidders are EADS-Astrium (Germany lead) pitted against a French-led Thales Alenia Space / OHB partnership. Best and final bids were submitted in October 2009 and ESA's final decision on the contract is expected within the next two months.

¶5. (C) Walati indicated that Astrium insiders are becoming increasingly worried that Thales Alenia Space will come out on top for this contract, which would mark a second (possibly fatal, in Walati's opinion) blow to Astrium. The MTG contract is highly politicized, as both France and Germany compete for national flag rights (project prime status), though a majority of the work should be divided-up fairly evenly between both countries. Originally, the Thales-Alenia partnership did not include much of a German presence, but after some encouragement from ESA, it struck a deal with OHB

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to develop the MTG satellite buses, which OHB also plans to use for future geostationary communications satellites.

#### ITS ALL A CONSPIRACY, MAN

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¶6. (C) Walati hypothesized that Astrium's defeat to OHB on the first Galileo contract may have been "helped along by a specific very high-level manager within EADS" (NFI). He suggested that this manager may have done so in order to lay the path for a failure in which EADS would be inclined to sell Astrium Satellites and its subsidiaries. He implied that the French are behind this conspiracy, as they are frustrated with Astrium's multinational structure and would prefer to keep control of sensitive satellite contracts on the French side of the Rhine. Walati said if Astrium Satellites failed in the MTG contract, that would certainly trigger changes and may even lead to a for-sale sign. If Astrium were to be sold, Walati thinks that Thales would be in a position to gobble up a large chunks of Astrium, leaving Germany--probably OHB--to acquire much of the rest, particularly Astrium in Friedrichshafen where Astrium's TerraSAR-X and TanDEM-X programs are headquartered.

#### COMMENT

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¶7. (C) Walati's rather extreme outlook on a potential Astrium Satellites sale may seem far-fetched on first inspection, but it may actually have some merit. Franco/German bickering within Astrium on who does what, coupled with a forcibly-shared workload likely are contributing factors to bloated budgets and schedule slips. The Astrium multinational paradigm may be putting it at a competitive disadvantage with leaner, better-focused companies like Thales or OHB. In addition, imaging satellite programs have inherent national security implications and there is a natural tendency for governments to reserve these programs for national eyes only. That may have influenced the German military's (BMVg) selection of OHB over Astrium for the original SAR-Lupe contract.

